



The Next Million-Dollar Penny Stock

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Penny stocks can [make you rich](#). Need proof? Every one of these multibaggers was once a penny stock:

Company	Recent Price	CAPS Stars (out of 5)	5-Year Return
Ebix (Nasdaq: EBIX)	\$65.75	****	1,361%
Yamana Gold (NYSE: AUY)	\$12.10	****	338%
PetMed Express (Nasdaq: PETS)	\$16.14	****	239%
Medifast (NYSE: MED)	\$23.37	**	515%
Advanced Battery Technologies (Nasdaq: ABAT)	\$3.80	**	245%

Sources: Motley Fool CAPS, Yahoo! Finance.

The promise of outrageous returns has periodically made even the world's best stock pickers penny stock investors. Peter Lynch has enjoyed the stock market's super-cheap seats in the past, and still does on occasion. The **Royce Low-Priced Stock** fund [has beaten the market for a decade](#) by betting on stocks trading near or below \$10 a share, including **Monster Worldwide** (NYSE: [MWW](#)).

Even the All-Stars in our 140,000-plus [Motley Fool CAPS](#) community take to penny stocks. More than a few have been [richly rewarded](#).

Pennies from heaven

So why *not* invest in penny stocks? Well, the warning the SEC issued about them provides one excellent reason to steer clear. But what if we take the agency's definition literally, and limit our choices to stocks trading between \$1.50 and \$5 a share? And what if we further seek only four- and five-star stocks with a [market cap](#) between \$250 million and \$2 billion? Surely our [CAPS screener](#) would return some winners, right?

This week when I [ran that screen](#), 61 stocks made the cut -- not including [our last topper](#), **FelCor Lodging Trust**.

My favorite penny stock this week is **Smith & Wesson Holding** (Nasdaq: [SWHC](#)), one of the country's oldest and best-known gun manufacturers. The details:

Metric	Smith & Wesson Holding
CAPS stars (out of 5)	****
Total ratings	740
Percent bulls	94%
Percent bears	6%
Bullish pitches	167 out of 176

CAPS investors like Smith & Wesson more today than they have in months. Over the past few weeks, a rush of newly bullish ratings by some of the community's best investors boosted the stock's

overall rating from three to four stars, [a nice upgrade](#).

Industry data supports the bullish case. Gun sales have risen by double digits in all but one month (July) over most of the past year, according to data from the National Shooting Sports Foundation.

For Smith & Wesson, the rush to buy guns has led to big sales and earnings gains. Revenue improved 30% in the fiscal first quarter, ended in July. Per-share earnings more than quadrupled over the same period.

Interestingly, Mr. Market doesn't appear to believe those gains are sustainable. According to data from Capital IQ, Smith & Wesson trades for less than 10 times the current fiscal year's earnings. That would be fine for a slow-growth company, but the average analyst projection is for 84% earnings growth during fiscal 2010 and close to 13% annually in each of the next five years.

That's too cheap; I'm going long this stock in [my CAPS portfolio](#).

Do you agree? Would *you* buy Smith & Wesson Holding at today's prices? Let us know by [signing up](#) for CAPS today. It's 100% free to participate. Or feel free to leave comments in the space below.

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